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COVID-19: Lockdown Impact on Informal Sector in India

By K Chandra Shekar and Kashif Mansoor

Introduction

According to ILO, it is estimated that globally more than 25 million jobs are at risk due to COVID-19 outbreak. The International Labour Organization (ILO) describes in its report¹ as 'the worst global crisis since World War II'. It is estimated that four in five people (81%) of the global workforce of 3.3 billion people are currently affected by the lockdowns in various countries. The United States, United Kingdom, Canada and most of the European and Asian countries are experiencing a rise in unemployment. The Head of the International Monetary Fund (IMF), Kristalina Georgieva has said the world is going through the worst economic crisis since the Great Depression in the 1930s.

Most of the world's poorest and most vulnerable people live and work in the informal economy and more than half the workforce in developing countries is employed in it. Of course, not all informal workers are poor and not all working poor are engaged in the informal economy. But there is a significant overlap between working in the informal economy and being poor.

According to the ILO report, in India, more than 40 crore informal workers may get pushed into deeper poverty due to COVID-19 outbreak and sectors such as hospitality and accommodation, retail and wholesale, business services, construction and industry have suffered drastic consequences with a decrease in production and loss of hours and employment figures. In total, 1.25 billion workers in these industries, more than a third (37.5%) of the world's workers are at high risk. The condition of low-paid and low-skilled informal workers is very worrying in the low- and middle-income countries where industries and services employ a large proportion of these workers, who account for 61% of the global workforce or 2 billion people and lack social protection or a safety net.

As informal workers struggle to survive amid the current crisis, there is a good reason to

believe that the post-crisis period will put additional pressure on the already fragile sector. The consequences of the COVID-19 outbreak for the informal economy will continue. Faced with a protracted crisis, the world economy is likely to depress demand for products and services from informal sector enterprises.

In this paper, we assess the probable consequences of the lockdown on the informal sector in India by bringing out both short and long-run effects. In the second part, we argue for a broad-based employment protection for informal workers and for integrating the informal sector in economic policies.

The informal sector

The informal economy is classified and can be defined in two parts. The first one is *informal employment*, which refers to workers employed by formal, registered firms on a casual, day-wage basis, as well as subsistence actors such as self-employed workers. This includes individuals and entrepreneurs that might undertake piecework in their own premises, street vendors and most domestic workers. They lack protection for non-payment of wages, retrenchment without notice, and often work under limited occupational safety conditions with no sick pay and health insurance.

The second group involves *informal sector enterprises*, which engage in coordinated commercial activity, such as bazaar traders, restaurants, and manufacturing in small ad hoc factories. They may or may not have a discernible organisational structure, with operations (and employment) that grows or shrinks, depending upon the demand for the enterprises' outputs or services. They are built around an actor/entrepreneur who engages in a series of spot market transactions with customers, suppliers, and workers, depending upon demand (Geertz, 1967). Informal enterprises are unable to seek (formal) credit and have limited access to social programs and public goods. Informal sector enterprises rarely invest in productivity-enhancing equipment, upgrade workers' skills, or achieve economies of scale, and tend to function on razor-thin margins. They have no recourse to legal protection should their customers renege on payment and can offer no form of security to their employees, pay no taxes, and ignore minimum wage regulations.

In developing countries, a large share of the population typically depends upon the informal economy. Their main source of livelihood or income generation is from subsistence farming or operating small unincorporated enterprises (Blades et al., 2011). Latouche S. (1993) argues that the informal is a laboratory of alternative sociability, which required that we reject the Universalist pretension of the economists. Schneider and Enste, (2003) estimate that the informal sector represents 10-20% of global output in developed countries and more than a third of the global output of developing countries. The figures reported by the International Labour Organisation (ILO) (2012) are of the same magnitude — 48% of non-agricultural employment in North Africa, 51% in Latin America, 65% in Asia, and 72% in Sub-Saharan Africa.

In India, the National Commission for Enterprises in the Unorganized Sector (NCEUS) observed that informal employment has been 98% in the agricultural sector, 75% in

industry, and 72% in services (Sengupta et al., 2009). Needless to say, the economic and growth and development in general and livelihood and wages of the vast majority of workers in India crucially depend on the economic viability of the informal economy. BBreman, J. (2016) also find that the creation of informal household enterprises is the common resort for non-agricultural employment for those who lack education or who are geographically disadvantaged. Benjamin and Mbaye (2015) point out the role of the urban informal sector in absorbing rural migrants. A notable characteristic of the informal sector is the strong female presence. 60% of working women in the developing world are in the informal economy Benjamin and Mbaye (2015).

Table 1 below gives a good sense of the significance of the informal economy in the Indian economy industry-wise. The agriculture sector accounts for more than 95% of GVA from the informal sector. Manufacturing and services also provide a considerable share in terms of GVA. In official records, nearly 63 million micro-enterprises, employing 107 million people (Government of India, 2019) exists in India. The unregistered enterprises, casual workers and subsistence traders likely account for a further 200-300 million.

Table 1: Share of Formal and Informal Sectors to GVA (2011-12, 2016-17, 2017-18)

	2011-12		2016-17		2017-18	
Industry	Formal	Informal	Formal	Informal	Formal	Informal
Agriculture, Forestry & Fishing	3.2	96.8	2.8	97.2	2.9	97.1
Mining & Quarrying	77.4	22.6	77.4	22.6	77.5	22.5
Manufacturing	74.5	25.5	76.4	23.6	77.3	22.7
Electricity, Gas, Water Supply & Other Utility Services	95.7	4.3	95.0	5.0	94.7	5.3
Construction	23.6	76.4	26.6	73.4	25.5	74.5
Trade, Repair, Accommodation & Food Services	13.4	86.6	13.4	86.6	13.4	86.6
Transport, Storage, Communication & Services Related to Broadcasting	53.0	47.0	53.7	46.3	52.3	47.7
Financial Services	90.7	9.3	88.1	11.9	88.1	11.9

Real Estate, Ownership of Dwelling & Professional Services	36.9	63.1	46.8	53.2	47.2	52.8
Public Administration & Defence	100.0	0.0	100.0	0.0	100.0	0.0
Other Services	58.8	41.2	52.7	47.3	52.1	47.9
TOTAL GVA At Basic Prices	46.1	53.9	47.3	52.7	47.6	52.4

Source: National Accounts Statistics, 2019

Impact of lockdown on informal sector

Even in the pre-COVID-19 period, the informal sector was reeling under shocks from demonetization and a poorly rolled out GST. While the objective of the GST reform and demonetisation was laudable, its hasty implementations have negatively affected the informal economy. There is wider evidence that demonetization has also had more negative effects on the informal sector than on the formal sector (Balamurugan and Hemalatha, 2017; Agrawa, 2018; Ghosh, Chandrasekhar and Patnaik, 2017). Hundreds of millions of small businesses operating in the informal sector that depend on cash have suffered losses and closed. A staggering 6.18 million job-loss between 2012 and 2018 was seemingly a result of the demonitization and GST fallout (Kannan & Raveendran, 2019). The informal sector has already been hit hard by the economic downturn and much of it may not be recorded in official statistics.

Short and long-run effects

Given the grim truth of occupational structure and poverty in India, it is not hard to understand that the nation-wide lockdown has, in a visceral way, exposed millions of people to hunger, starvation and death. The latest report on the Periodic Labour Force Survey (2017-18) informs us that about 57% of rural households derived their major income from self-employment activities, and 25% had a major source of income from casual labour. The proportions of regular/wage salaried earners accounted for 12.81% of rural households. In urban India, the corresponding figures were 37.57%, 12.68% and 41.66%.

Many of these rural self-employed households are marginal cultivators and petty artisans, while in urban areas they are engaged in small shops, low-scale businesses or intermediation activities. These numbers – self-employed and casual labour households – open our eyes to the hardships millions of households must be undergoing due to the suspension of economic activities amid the COVID-19 outbreak. Even if we go only by the shares of casual labour, we are speaking of about a one-fifth of the household population that is extremely vulnerable and finds itself fragile to cope up with the economic tsunami.

The vulnerability is exacerbated by the informality of jobs/occupations. Over 90% workers in India are informal workers, who are provided with no social security provisions. In absolute numbers, this translates into 411 million out of 461 million. Informality is also a growing feature of the organized sector as evidenced in Table 2. In 2017-18, around 98.5% of agricultural workers were informal. In industry and the services sector, shares are 88% and 78% respectively. These numbers inform us of the hardships millions of workers and their families are having to face on account of the disruption of economic activities.

Much of the economic impact of the COVID-19 on informal trading sector comes from the 'aversion behaviour'. Aversive behaviours are the actions people are taking to prevent themselves from being infected with the virus, such as reduced going out and the government ban on 'nonessential' shops, etc. These actions affect all sectors of the economy and in turn, translate into lower incomes, both on the supply side (declining in the production) and the demand side (reduced consumer demand). The closure of businesses results in lost wages for workers in many cases, especially in the informal economy where there is no paid leave.

Even if the pandemic subsides, we cannot expect things to return to their pre-pandemic state even in the medium run. Although there is much talk about what policy actions developing countries like India can undertake to mitigate the economic costs of the pandemic, in reality, outside a handful of middle-income 'emerging' countries endowed with the appropriate infrastructure, few have the means to afford prudent and meaningful policy action. Some countries are taking steps to strengthen health systems and expand social safety nets, as well as offer tax relief measures and credit guarantees, but meaningful action requires that there are efficient government agencies that can implement these measures.

Firms in developing countries engaged in the manufacturing of global value chains are already experiencing job cuts as they reduce the employment of informal workers in response to declining demand. The effect on informal businesses is more ambiguous. On the one hand, few informal firms can afford to continue during a recession. On the other, since they tend to 'own' few physical assets and employ people only temporarily, some are likely to recover once demand has returned.

After the crisis, it is not clear whether the global value chain in manufacturing will regain the same dependence on formal and informal networks. In the past decade, multinational enterprises (MNEs) have tried to reduce their dependence on informal firms as NGOs, consumer groups and other stakeholders have continued to pressurize them to take full responsibility of the chain, making them less dependent on suppliers with lower standards for work, health and safety. Large and formal suppliers were encouraged to involve less informal employees. COVID-19 will allow a new realignment. First, there may be a tendency to use suppliers in more expensive locations (but closer to major markets) by replacing labour with capital. Second, in the medium term, we will

see a greater exclusion of productive activities by global value chains from the informal economy. Both will be at the expense of countries that want to take advantage of their low labour costs by engaging in the manufacturing supply chain.

Supply chains have been cut off for weeks as many manufacturing units shut down productions. Small businesses selling textiles, electronics or household goods are stranded. The informal industry in India supplies all kinds of products, from textiles to electronics, most of which are imported from China. The shortage of supplies for ordinary businesses in India means no business and no income. This situation exacerbates the poverty problem already existing in India.

Another vulnerability-inducing factor is low wages. The average wage a casual worker reported to have received in 2017-18 is Rs 254.83, and the average earnings of a self-employed person is Rs 276.09, while that of a regular-salaried person is 530.76. Around 68% of all workers are reported to earn wages (or earnings in the case of self-employed) less than the recommended national minimum wage 375. Of this, 84.62% of casual workers alone and 52.83% of regular workers do not earn more than the national minimum wage. Not only this, the gap between their wages/earnings and the recommended minimum is an average 41%. In other words, they are earning 41% below the stipulated minimum. This minimum wage has been recommended by the expert committee formed under the Ministry of Labour & Employment, Government of India in 2019.

Table 2: Share of workers earning <375 MW in 2017-18

Labour Status	Rural Persons	Urban Persons	Total Persons
Casual	88.22	69.23	84.62
Regular	62.34	47.34	52.83
Self-Employed	75.40	48.72	67.90
Combined (C+R+SE)	77.61	50.94	68.07

Source: Authors' own calculation based on PLFS 2017-18

The lockdown has already started showing us the adverse effects on the informal sector workers. The exodus of migrant workers as widely seen over social media and reported in various news reports is the fallout of the crisis. India has about 40-50 million seasonal migrant workers who work in construction sites, factory production and service activities. Since businesses are closed and establishments are shut, migrant workers have run out of work and are seen returning to their native places. Some have reportedly died returning on foot due to the suspension of busses and trains. Some are stuck in places of their work. With no work, no income or savings, it is extremely difficult for them and their dependent families to survive. A recent survey of migrant

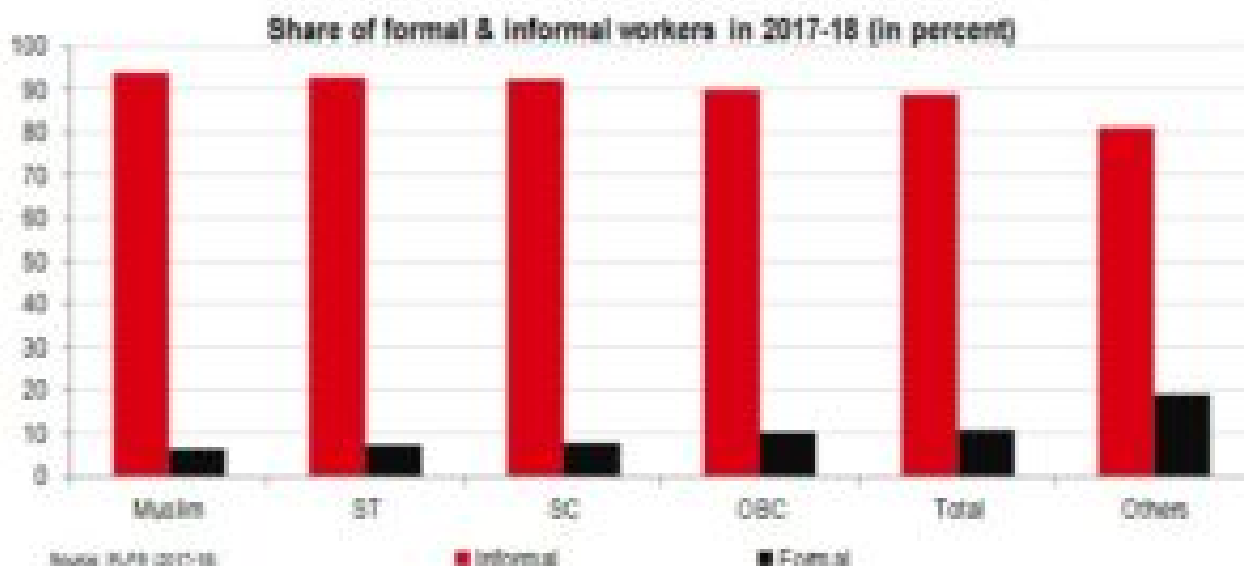
workers by a Delhi-based NGO *Jan Sahas* has found that 90% of those surveyed have already lost their only source of income, while 42% of them did not have food rations for a single day.² Another survey of 11,000 workers has found that 96% of them have not received food rations from the governments and 89% have not been paid by their employees during the lockdown.

According to the Centre for Monitoring of Indian Economy (CMIE), in March 2020, the labour force participation rate has fallen to an all-time low and the unemployment rate has risen sharply. The employment rate has slumped; there was a steep fall of 9 million from 443 million in January 2020 to 434 million in March 2020. This decline is a result of a fall of 15 million in the number of the employed (from 411 million to 396 million) and a 6 million rise in the number of the unemployed (from 32 million to 38 million) in March 2020. The CMIE data reports that unemployment has surged to 8.7%, the highest ever in the last 43 months.³ Further, as per a report in the Business Standard,⁴ only 30.8 million jobs were provided during 15-29 April 2020 under Mahatma Gandhi National Rural Employment Guarantee Act (MGNREGA), as opposed to 273.96 million in the corresponding period of 2019-20. The work under MGNREGA too has been stalled to curtail the transmission of the virus and this comes at a huge cost to the rural labouring poor.

As yet, we do not have statistics to show how much of this decline in employment and labour force is caused in the informal sector. Nonetheless, based on the fragility of the informal sector in terms of low capital base, and no employment protection given to workers, it is clear that the informal sector has received the greater proportion of the current economic crisis. The loss of livelihood of an informal worker is sure to jeopardise the survival prospects of the entire family.

Though pandemics affect all, the effects are much greater on the socially vulnerable populations. Researchers in India have shown how social identities – like caste, gender and religion, all important constituents of identity in India – affect the labour market outcomes such as wages, occupational status, and informality.⁵

There is no doubt that COVID-19 and the subsequent lockdowns will not have adverse impacts on socially vulnerable populations. As is apparent in the figure below, Muslims constitute the highest share of informal workers, followed by STs, SCs and OBCs. The category, *Others* (mostly upper castes of all religious communities, except Muslim) has the lowest proportion of informal workers. While the formality of jobs is low in India, yet Muslims among all social groups have the lowest share. The current economic crisis is likely to affect the depressed groups – STs, SCs and Muslims – the most.



Effects of a pandemic will continue even after the virus is rid of. Studies on the long term effects of the Spanish Flu have demonstrated that the children born to infected mothers are likely to have low learning ability, wages of workers to be lower and productivity to be lower among people affected by the disease than others.⁶ While India was already in a downturn before COVID-19, there is no reason why the current economic crisis will not have intergenerational effects, especially on the poor and marginalized populations.

The vulnerability of informal workers is, as said above, strongly influenced by their social status and their capabilities. The latter is dependent on their access to education, good health, decent housing, sanitation, and other basic amenities. These capabilities are issues of public intervention in fields of education, housing and sanitation. Warranted by the magnitude of the current crisis, India has to ensure a wider reach of these amenities to both improvise living and protect livelihoods.

Policy Discussion

Some immediate steps have been taken by various state governments in India to support the poor, the elderly, the disabled, women and the informal workers including migrant workers, such as providing compensation to daily wage and construction workers respectively for wage loss due to disruption of economic activities, providing welfare pensions, employment guarantee program, free food distribution, and MSME loans etc.

Tax incentives exclude the informal economy

While countries around the world have tried to make rapid aid efforts to support their economies and workers amid COVID-19, many of these programs have not reached their informal economies. Since many relief efforts build on pre-existing relationships between states, workers and businesses, they have inadvertently widened the gap between formal and informal economies.

Economic assistance efforts have mainly focused on providing income replacement support and tax incentives to businesses or individuals. However, these efforts do not reach the informal economy. Informal businesses do not benefit from tax breaks as they often do not pay all of the formal taxes. Even reductions in value-added tax can have less impact in the informal sector: while informal enterprises can pay VAT on the inputs they buy, low-income groups are often less affected by VAT than is often assumed due to the nature of the exemptions and payment thresholds.

Some governments have actively recognized that workers in the informal economy are struggling. Even symbolically, this is a precious step for a sector often demonized in public discourse. In practice, however, measures that directly support the informal sector, such as reducing electricity bills, are still relatively rare. Other promised responses, including direct transfers to informal worker in the industry, pose significant implementation challenges. Existing social protection programs reach only a small percentage of vulnerable populations, and the feasibility of a rapidly expanding money transfer infrastructure is uncertain. When cash transfers depend on mobile banking, the digital divide will exclude the most vulnerable.

Integrating the informal sector in economic policies

The integration of informal sector into the economic development process after the COVID-19 lockdown which is currently in varying degrees in India could be an alternative to the conception of a survival aid strategy conceived as a poverty reduction policy with a welfare bias. While the informal sector includes survival activities that have no chance of coinciding with the mainstream of a country's economy, it also includes many activities whose growth depends on their ability to integrate fully with the global economic system.

This important objective would help transform aid to the informal sector into a source of self-sustained growth behaviour which will be no longer linked to permanent governmental support. On the other hand, an equally essential objective such as poverty reduction, by supporting survival strategies, tends to perpetuate inequalities and segmentation. Therefore, the focus should be on moving towards integration into economic policies. In doing so, we can also elucidate the direction of the various institutions established to support informal activities.

Currently, these agencies are torn between social interventions and productive initiatives that often lead to contradictory actions and, worse, inter-agency conflicts. The integration of the informal sector into economic policy can be achieved by different but complementary means. To this, we propose a three-pronged approach as discussed below.

The first is to provide support to stimulate the productive development of micro-enterprises by facilitating their access to the market and productive resources.

The most common tools used for these purposes are credit programs, as well as training and promotion programs to access more dynamic markets by strengthening

organizational skills and marketing practices. In this respect, the recommendation of setting up a National Fund for the Unorganised Sector by the NCEUS (2007) would prove to be good intervention.

Most governments provide incentives for MSMEs to engage with formal enterprises within their supply chains; these should be extended to informal enterprises, which are often also micro-enterprises. These informal firms (formal or informal) should be assisted – for example, by training or subsidizing the certification of these firms – in introducing higher occupational safety standards and better protection of workers and provide knowledge to integrate into the supply chain by ensuring the necessary transparency and accountability. This requires the active cooperation of leading firms and major suppliers. More generally, it is important to encourage local businesses/informal entrepreneurs to enter new markets, such as helping micro-enterprises in social media advertising and e-commerce etc.

The second concerns the social well-being of workers in the informal sector.

At this level, policy options are often mixed with poverty reduction policies. It should be noted, however, that family-based enterprises and the informal micro and small enterprises are always become entangled. Most of the informal enterprises are own account enterprises where workers and family members join business activities. Capital goods such as means of transport are investment capital, as long as they are used for commercial purposes. However, these resources are also considered as consumer goods as well as family properties used for private purposes. Such interchangeability of labour and capital resources and the absence of social protection leads to low economic performance. Suppose, if the worker or the owner gets ill, the informal enterprise collapses. Therefore, the mutually complementing policies implemented with a view of social well-being have a positive relationship with the productivity development of the informal sector. Further, there is a need for a national social protection floor for all wage workers in the informal economy – implementing the minimum wage, health and safety incentives, and organizing informal workers. At the same time, the integration policies should ensure sustained credit flow to MSMEs so that their business activities are not affected out of lack of working capital.

Finally, the third approach deals with the regulatory framework.

Informal sector activities are not caused by an inadequate regulatory framework, rather by the failure of the economic system to create enough formal employment opportunities. Regulatory improvements in favour of the informal sector may lead to the integration of informal sector activities into the economic development policies. This debate evolved in recent years has significantly narrowed the previous gap between those who argued in favour of the simplistic notion that legislative or procedural changes are enough to overcome the existing problems towards the informal sector, and those who denied the role of the regulatory framework with respect to the economic system.

It is only reasonable that when faced with an economic shock amid a pandemic, the government should place the highest priority on the poor and informal workers so that

their livelihoods are not threatened by its specific policies and negligence.

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NOTES

Steps have been taken by various state governments amid COVID-19 Pandemic in India: Uttar Pradesh and Punjab have, for instance, offered compensation to daily wage and construction workers respectively for wage loss due to disruption of economic activities. Delhi, under Kejriwal, has doubled the pension amount of the elderly, the widowed and the disabled and also extra ration to those enrolled in the ration scheme. Kerala has announced a special relief package worth Rs 20000 crores to cater to welfare pensions, employment guarantee program, free food distribution, and loans, apart from health care expenditure. They have also fast-tracked the opening of 1000 subsidised food stalls which were announced in the last year state budget.

Many practices have also emerged in several countries to improve conditions in the informal sector and increase the firm level productivity. In Africa, the development of a fully-fledged innovation ecosystem links iLab Africa, providing business solutions to casual businesses through mobile technology, improving access to ICTs and overall productivity.

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